

Service Date: September 19, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

\* \* \* \* \*

In the Matter of the Application )	UTILITY DIVISION
of MOUNTAIN BELL for a General )	DOCKET NO. 88.1.2
Rate Increase. )	INTERIM ORDER NO. 5354
_____)	

FINDINGS OF FACT

On January 22, 1988, Mountain Bell filed an application for a general rate increase. The application requested rate increases to produce an additional \$13.9 million in annual revenues.

On February 29, 1988, Mountain Bell filed an application for an interim rate increase to generate \$5.5 million in annual revenues.

On April 7, 1988, the Montana Consumer Counsel (MCC) filed a Motion to Dismiss this case based on the fact that the filing was based on a September 30, 1987, test year but 1986 financial data and cost studies were used to separate deregulated

services from regulated services. MCC's motion stated that mismatch created made it impossible to assess the application.

On April 21, 1988, MCC and Mountain Bell filed a stipulation withdrawing the Motion to Dismiss and suspending the procedural schedule. Mountain Bell agreed to file an updated case using a 1987 test year and 1987 data to remove deregulated results of operations.

On June 8, 1988, Mountain Bell filed a request for an interim rate increase of \$8.5 million annually. Mountain Bell updated this request to \$10.1 million on June 22, 1988, based on revision to the deregulated financial data.

On June 30, 1988, Mountain Bell filed an updated final rate request. The revised filing requested additional annual revenues of \$17.5 million.

The interim rules, ARM 38.5.501 to 38.5.508, require a utility to file an interim based on the test year used in its final filing and make any adjustments to booked operating income and rate base that were made in the most recent Commission general rate order.

The last general rate order issued by the Commission was Order No. 5046f in Docket No. 84.4.19. The test year used in that case was calendar year 1984, the first post-divestiture year. Since that time, Mountain Bell's operations have changed

significantly. The interaction with nonregulated affiliated companies has increased dramatically. In Order No. 5046f the Commission's review of affiliated transactions was limited to Bell Communications Research and U S West Direct. The Commission expressed concern with ratepayer funding of research that would benefit new deregulated services (p. 21) and that U S West may be attempting to siphon off the profits associated with the directory business by transferring directory operations to a separate subsidiary, U S West Direct, and decreasing the fees that U S West Direct pays to Mountain Bell (p. 26). Since that Order the publishing fees paid by U S West Direct to Mountain Bell have been more than halved. U S West Advanced Technologies was created in 1985 and provides research and development services to Mountain Bell over and above those provided by Bell Communications Research. These factors alone indicate that the last Commission review is now out of date.

In addition to the problems with affiliated transactions pointed out in the last general rate order, U S West has created many more nonregulated affiliates that do business with Mountain Bell. Materials Resources Inc. was created in 1986 to provide procurement services. This function was provided by

Spurs West at the time of the last rate case. Spurs West was a partnership between the three U S West operating companies. Any profits earned by Spurs West flowed back to the operating companies. Material Resources is organized as a for profit corporation creating questions concerning the prices that Mountain Bell pays for its services.

U S West Corporate Communications provides official communications services for Mountain Bell. Beta West Properties provides site selection and design services for office buildings, relocation services, and leases space to Mountain Bell. U S West provides shareholder services, handles federal relations, and manages pension plans. Several other affiliates provide services such as third party leasing, marketing mobile and paging services, etc. Mountain Bell provides personnel management, legal services, marketing, billing and collection, communication services, consulting services, various support services, etc. to the nonregulated U S West holding company and its subsidiaries.

The Commission has not reviewed any of these affiliated interest areas. These affiliate transactions have substantial financial impacts. Without the comfort of arm's length transactions, or any previous Commission review, the Commission

does not wish to offer even interim approval of any of the amounts presented.

Another major change since the last Commission general rate order concerns the 1985 Montana Telecommunications Act. That Act deregulated several Mountain Bell services. Among these services are private line, inside wire, and carrier billing and collection. The Act prohibits regulated telecommunications services from subsidizing services that are not regulated (MCA 69-3-806). To comply with this provision, Montana Bell has presented an Accounting Separations Plan to separate the revenues and costs of deregulated services from regulated services. This process involves hundreds of allocations of joint and common costs. The Commission is very concerned about the opportunities for cross-subsidization. Regulated ratepayers should be sheltered from increased risks from deregulated operations. The costs that Mountain Bell removed from the overall revenue requirement in this case are less than the amounts shown in the 1986 cost study. If it is the case that less costs are being removed because of decreasing demand for services that are not regulated, then there should not be an assumption that those costs should be shifted back to regulated ratepayers. Again,

without the benefit of any prior review, the Commission will not give interim approval to the Accounting Separations Plan.

Affiliated interest questions and cost accounting are of such a magnitude that the Commission will not arrive at an overall revenue requirement for interim purposes. However, the Commission is very concerned about Mountain Bell's earnings situation in 1988. Through May of 1988 Mountain Bell's rate of return is 6.12%. This is far below the 10.94% overall return used by this Commission in Docket No. 86.11.62 Sub 11 for interim purposes and proposed by Mountain Bell for interim purposes in this Docket. Changes in mandated federal/state cost allocation procedures, the Federal Communications Commission (FCC) prescribed uniform systems of accounts, and the amounts that Mountain Bell pays to independent telephone companies have combined to cause significant earnings problems in 1988. All of these financial impacts have not been under Mountain Bell's control. The Commission finds that these items do not represent increases in Mountain Bell's total costs and are not impacted significantly by transactions with affiliated companies or the provision of deregulated services. The Commission finds that these changes should be reflected in current rates. This will

give Mountain Bell some earnings relief and avoid the lag in recovering these items that would occur if the Commission were to wait until a final order to give any rate relief.

There are several separations changes presented in this Docket that are the results of FCC orders in Docket 80-286. These changes shift cost allocations between the interstate and intrastate jurisdictions.

- A. The FCC ordered an eight year phase-down of the Subscriber Plant Factor (SPF) to a 25% interstate assignment. The SPF is the allocator used to assign nontraffic sensitive loop costs between the interstate and intrastate jurisdictions. The phase began in 1986. Mountain Bell is asking to reflect the 1988 increase in the intrastate allocator in rates. The 1988 change causes a revenue requirement of \$2,551,000.
- B. The FCC ordered that any recovery of customer premises equipment (CPE) be terminated. Because of the impact of this decision, the FCC ordered that CPE be phased out of the separations process at one sixtieth per month. This phase out started in 1983 and the \$612,000 requested by Mountain Bell reflects the revenue

requirement caused by removing all interstate CPE amounts from 1987 results.

- C. The FCC also adopted some separations changes to be in effect in 1988. The distinction between traffic sensitive (TS) and nontraffic sensitive (NTS) switching equipment is eliminated. Prior to 1988 the TS portion of a switch was allocated based on weighted dial equipment minutes. The NTS portion was allocated on the SPF. Now dial equipment minutes will be used for this entire investment. The new procedures are being phased in over five years with 10% of the change in 1988, 20% in 1989 through 1992, and 10% in 1993. The 1988 effect of this change is \$570,000.
- D. The second 1988 change eliminates the distance sensitive factor for the separations category - All other circuit equipment. The allocation of this separations category used to be based on a mileage sensitive factor. The Joint Board found that since between 60 percent and 95 percent of this circuit equipment is not distance sensitive, the distance weighting should be

removed from the allocator. This circuit equipment category will now be separated on conversation minutes.

This change increases the intrastate revenue requirements by \$260,000.

- E. The third 1988 change affects the allocation of revenue accounting costs. These are the costs incurred for billing end customers and accounting for collected revenues. The changes simplify the procedures used for this category and will accurately reflect the changes needed as AT&T begins to perform its own billing functions. This change reduced intrastate revenue requirements by \$229,000.

The USOA rewrite increases revenue requirements. The major cause of the increase is the shift from capitalized costs to expensed costs. Various items that were capitalized and added to rate base under Part 31 will now be expensed under Part 32. The largest costs that fall into the capital to expense shifts are general overhead costs assigned to construction, procurement costs, social security and pension costs, and unclassified engineering time. First time right to use fees that were

previously expensed will now be capitalized. These changes increase the revenue requirement by \$1,730,000.

On August 10, 1988, the Commission issued Order No. 5336a in Docket No. 87.12.84. That Order granted an increase in carrier access rates to TECOM. The rates, with only minimal modifications, have been in effect since the Interim Order 5336 issued on March 16, 1988. That rate increase will increase the amounts that Mountain Bell pays to small independent telephone companies for access to those companies networks to originate and terminate intraLATA long distance calls. The increase causes an increase in Mountain Bell's revenue requirement of \$872,000.

The Commission grants Mountain Bell additional revenues of \$6,366,000 to recover the above separations costs, USOA rewrite costs and TECOM rate increases.

The Company has proposed two rate designs for interim rate relief. MB's first proposal is to recover the increased revenue requirement from all flat-rated basic exchange access lines. This proposal would increase these services by a uniform dollar amount per line. As an alternative, MB proposes increasing rates for several services, and recovering the residual

revenue requirement through flat-rated access lines using a uniform dollar increase per line. Table 1 shows MB's alternative interim rate spread proposal.

-----  
Table 1. MB's Alternative Rate Design Proposal  
-----

<u>Category</u>	<u>Revenue Effect</u>
25¢ Coin Telephone:	\$1,596,936
Directory Assistance: 40¢ per call, 1-call allowance	\$961,128
Centron 6 & 30: Increase busy line features	\$166,751
Companion Line: \$5 increase for res- idential, \$8 for mea- sured and message business	\$6,775
Operator Surcharge:	\$530,277
Special Access:	\$283,579
Flat-Rated Access Lines:	Residual

-----

Many of the proposed changes in Table 1 were proposed by MB in the rate design portion of Docket No. 86.11.62 (sub 11),

the tax docket. In that docket, the MCC concurred with MB's proposal to increase coin telephone rates to 25¢. The MCC also concurred with MB's proposal to increase prices for Centron 6 & 30 busy line features, and Companion Line services.

The MCC disagreed with MB's proposal to allow only one free directory assistance call per month, instead proposing a three-call allowance. Additionally, the MCC disagreed with MB's proposed Station-to-Station increase; however it did concur with other proposed operator surcharges.

The Company's proposal to increase Special Access would return Special Access revenues to the level which existed prior to the district court ruling which caused Special Access to be re-regulated and lowered those rates.

As noted previously, MB proposes to collect any residual revenue requirement through a uniform dollar increase to all flat-rated basic exchanges access lines. Additionally, it should be noted that the revenue effects shown in Table 1, above, do not include any elasticity responses to price changes.

The Commission accepts the Company's proposal to increase Coin Telephone, Centron, Companion Line, and Operator Surcharges. The Commission rejects MB's proposal to change Special

Access and Directory Assistance rates in the interim rate spread.

The Commission finds that MB's proposal to place any residual revenue requirement on access services has merit. However, the Commission does not agree with MB's proposal to increase only flat-rated access lines, nor does it agree with MB's proposal to increase access line charges by a uniform dollar amount per access line. The Commission requires MB to recover the residual revenue requirement through the use of an equipercent increase to all local exchange access services (i.e. flat-rated, message, and message exchange services).

The Commission's interim rate design decision using the Commission's allowed revenue requirement increase of \$6,366,000, (see Finding No. 17), less the \$1,304,000 revenue requirement decrease required in the Depreciation Docket (see Order Paragraph No. 1, Docket No. 88.2.5, Order No. 5359) places a residual revenue increase of \$2,761,261 on basic exchange services.

Table 2 shows the rate impacts of the equipercent increase on flat-rated and measured access services. The overall equipercent increase is approximately 4.75% for each service.

-----  
 Table 2. Rate Impacts.  
 -----

<u>Rate Class</u>	<u>Rate</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>
<u>Residential</u>				
Flat-Rated	1FR	\$13.11	\$13.73	\$ .62
	2FR	\$10.11	\$10.59	\$ .48
Measured	LM1	\$7.71	\$8.08	\$ .37
<u>Business</u>				
Flat-Rated Zone 1	1FB	\$33.90	\$35.51	\$1.61
	Zone 2	1FB	\$36.62	\$38.36
Measured	LMB	\$19.28	\$20.20	\$ .92

-----  
CONCLUSIONS OF LAW

1. Mountain Bell offers regulated telecommunications services in the state of Montana and is a public utility under Section 69-3-101, MCA. The Commission has authority to supervise, regulate, and control public utilities. Section 69-3-102, MCA.

2. Section 69-3-304, MCA, provides in part, "the Commission may, in its discretion, temporarily approve increases or decreases pending a hearing and final decision." The rates approved herein are

a reasonable means of providing interim annual revenue reductions for Mountain Bell.

3. If the final revenue requirement in this Docket is less than the revenues granted in this Order, ratepayers are entitled to a refund with interest. Section 69-3-304, MCA.

ORDER

1. Mountain Bell is hereby GRANTED \$6,366,000 in additional annual revenues on an interim basis. This rate increase is subject to refund with interest at 13% should the final revenue requirement in this Docket be less than the revenue requirement granted in this Order.

2. The revenue requirement in this Order will be implemented coincident with the rate decrease ordered in Docket No. 88.2.5, Order No. 5359.

3. Rates granted in this Docket will be effective upon filing and approval by the Commission.

DONE AND DATED at Helena, Montana, this 16th day of September, 1988, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

---

CLYDE JARVIS, Chairman

---

HOWARD L. ELLIS, Commissioner

---

TOM MONAHAN, Commissioner

---

DANNY OBERG, Commissioner

---

JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol A. Frasier  
Commission Secretary

{SEAL}

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.